

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF NEBRASKA**

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<b>In the Matter of the Application of</b>	)	
<b>Black Hills/Nebraska Gas Company, LLC</b>	)	<b>Application No. NG-0086</b>
<b>d/b/a Black Hills Energy for Approval of</b>	)	
<b>its Cost of Service Gas Hedge Agreement with</b>	)	
<b>Black Hills Utility Holdings, Inc.</b>	)	

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**REBUTTAL TESTIMONY OF  
RICHARD C. (CHUCK) LOOMIS**

**On Behalf of Black Hills/Nebraska Gas Utility Company, LLC, d/b/a Black Hills Energy  
And  
Black Hills Utility Holdings, Inc.**

**March 29, 2016**

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1                                   **I.     INTRODUCTION AND QUALIFICATIONS**

2   **Q.     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3   A.     My name is Richard C. (Chuck) Loomis and my business address is 2828 Plant St., Rapid  
4           City, South Dakota.

5   **Q.     ARE YOU THE SAME RICHARD C. LOOMIS THAT PREVIOUSLY PROVIDED**  
6           **DIRECT TESTIMONY IN THIS MATTER?**

7   A.     Yes.

8   **Q.     FOR WHOM ARE YOU TESTIFYING?**

9   A.     I am testifying on behalf of Black Hills/Nebraska Gas Utility Company, LLC d.b.a. Black  
10          Hills Energy (the “Company”).

11                                   **II.    PURPOSE AND SUMMARY**

12   **Q.     WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13   A.     The purpose of my rebuttal testimony is to respond to concerns expressed by witness Steve  
14          Sorenson on behalf of Constellation NewEnergy – Gas Division, LLC (“CNEG”) if Black  
15          Hills’ Application for approval of a Cost of Service Gas (“COSG”) Program is approved.  
16          I will explain why Mr. Sorenson’s perceived claims regarding the “potential” impacts of  
17          the COSG program on CNEG’s business or the market generally are not supported by facts  
18          and provide no reason to deny the COSG Application.

19   **Q.     PLEASE DESCRIBE CNEG’S CONCERNS, AS EXPRESSED IN MR.**  
20           **SORENSEN’S DIRECT TESTIMONY.**

1 A. Mr. Sorenson indicates that the primary purpose of his direct testimony is to state CNEG's  
2 concerns that, if the Application is approved, such approval may lead to customers deciding  
3 to switch back and forth between the Company's tariff supply and transportation service.<sup>1</sup>

4 **Q. WHAT SUPPORT DOES MR. SORENSON PROVIDE FOR HIS ALLEGED**  
5 **CONCERNS?**

6 A. Mr. Sorenson does not provide any facts to support his concerns. His direct testimony  
7 suggests that future issues may arise that may have "adverse consequences to the viability  
8 of competitive markets,"<sup>2</sup> but his statements amount to nothing more than a red herring and  
9 should be rejected by the Commission. Customers, with some restrictions as set forth in  
10 tariffs, currently have the ability to move back and forth between the Company's tariff  
11 supply and transportation service. However, as explained below, even though market prices  
12 and resulting customer costs have experienced significant variation over the past five years,  
13 such variation has not resulted in a material amount of customer transfers to or from tariff  
14 or transportation service.

15 **Q. PLEASE EXPLAIN.**

16 A. It is important to provide some context regarding the number of transportation customers  
17 and the corresponding volume of natural gas transported on the Company's system in  
18 Nebraska. Over the past five years, the number of customers in Nebraska utilizing  
19 transportation service on the Company's system has not meaningfully changed, remaining  
20 within a range of 4,115 to 4,271 customers.<sup>3</sup> Transportation customers may select from a  
21 number of competitive energy supply providers; that is to say, CNEG serves a subset of the

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<sup>1</sup> Sorenson Direct Testimony, Page 5, Lines 8-11.

<sup>2</sup> Sorenson Direct Testimony, Page 5, Lines 14-17.

<sup>3</sup> Black Hills Corporation 2013 10-K, Pages 23-24; Black Hills Corporation 2015 10-K, Pages 24-25.

1 total number of the Company's Nebraska transportation customers. The annual volume  
2 transported by the Company for all Nebraska transportation customers has ranged from 25.0  
3 million Dth to 30.7 million Dth over the past five years.<sup>4</sup> Of the total volume transported  
4 by the Company during 2015, the largest 25 customers by volume transported nearly 22.2  
5 million Dth. These large volume customers (such as ethanol plants, steel plants, biodiesel  
6 plants and other major industrial processing customers) typically do not rely on utility tariff  
7 service, but rather select to transport gas across the Company's system and arrange for their  
8 own unique supply requirements. After accounting for these 25 largest transportation  
9 accounts, the remaining transportation customers are, on average, significantly smaller in  
10 terms of volume, transporting only approximately 6.8 million Dth, or an average of about  
11 1,600 Dth per customer. Over the past five years, the number of customers that have chosen  
12 CNEG as their competitive supplier has ranged from approximately 3,400 customers in  
13 2011 to approximately 2,400 customers in 2015. The Company does not provide natural  
14 gas supplies to customers that select to utilize transportation service; the Company provides  
15 supplies to its nearly 197,000 system supply customers (generally residential and  
16 commercial customers).

17 **Q. HAS THE PRICE OF NATURAL GAS VARIED OVER THE PAST 5 YEARS?**

18 A. Yes. It is worthy to note that during the 5 year period, from 2011 through 2015, the monthly  
19 tariff gas cost adjustment rate billed to Nebraska system supply customers has ranged from  
20 \$3.38 per Dth to \$7.43 per Dth.

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<sup>4</sup> Black Hills Corporation 2013 10-K, Pages 23-24; Black Hills Corporation 2015 10-K, Pages 24-25.

1 **Q. ALTHOUGH THE PRICE OF NATURAL GAS HAS VARIED OVER THE PAST 5**  
2 **YEARS, HAS THERE BEEN ANY MEANINGFUL CHANGE IN THE NUMBER**  
3 **OF TRANSPORTATION CUSTOMERS FOR THE COMPANY IN NEBRASKA?**

4 A. No. The number of customers choosing transportation service and corresponding annual  
5 volume of gas transported has not materially changed in the past five years. It is important  
6 to note that the Company's proposal for the COSG Program is intended to serve as a long-  
7 term physical hedge for 50% of the annual weather-normalized firm demand of the  
8 Company's system supply customers. This long-term hedge is designed to provide greater  
9 long-term stability for the Company's system supply customers by providing a portion of  
10 the Company's gas supply portfolio at a more stable cost of production rather than at more  
11 volatile spot market prices. The COSG Program does not seek to change any aspect of the  
12 Company's transportation service.

13 Despite the variation in market prices that actually occurred over the past five years, there  
14 has been no material change between rate classes. CNEG's concern that such "switching"  
15 will happen if the Company is successful in reducing the variability for half of its gas supply  
16 portfolio is unfounded. Further, as contemplated in Section 3.4 of the COSG Agreement,  
17 should a material change occur in annual load requirements, BHUH can, as outlined in its  
18 proposal, make certain adjustments to its 5-year drilling programs to target production at  
19 50% of annual weather normalized firm demand.

20 **Q. AS A COMPETITIVE SUPPLIER OF NATURAL GAS, ISN'T CNEG ALREADY**  
21 **SUBJECT TO A RISK OF RETAINING ITS CUSTOMERS?**

1 A. Yes. While Mr. Sorenson expresses concern with the potential for CNEG to lose customers  
2 who switch from transportation to system supply,<sup>5</sup> he does not mention that, as a  
3 competitive supplier, in any given period CNEG could lose customers to other competitive  
4 suppliers, presumably for any number of reasons. This is evident by the decrease in the  
5 number of customers supplied by CNEG from 2011 (3,400 customers) to 2015 (2,400  
6 customers). CNEG is a competitive supplier and its business is subject to a myriad of  
7 competitive forces. Concerns about a program that will provide greater stability to the  
8 Company's system supply customers is no reason to deny a program that will offer benefits  
9 to the nearly 197,000 customers receiving system supply service from the Company. As  
10 Mr. Sorenson further indicates in his direct testimony, "[a]lthough protection of retail  
11 suppliers against below market prices is not, per se, the concern or responsibility of the  
12 Commission, the Commission should focus on the overall best market structure to minimize  
13 ratepayer price and risk."<sup>6</sup> The Company's proposal for a COSG program is, in fact,  
14 intended to reduce ratepayer price risk by providing more stable long-term prices for the  
15 nearly 197,000 residential and commercial customers that receive gas supply from the  
16 Company by providing a long-term physical hedge. Merely because the COSG Program  
17 could result in retail gas prices at below market rate and because market competitors may  
18 lose business is not a legitimate reason for the Company not to propose the COSG Program  
19 for the benefit of its customers. The Commission's consultant, Christensen Associates  
20 notes that while the COSG Program may convey cost advantages, it does not find the  
21 potential realization of any such advantage to be unfair.<sup>7</sup>

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<sup>5</sup> Sorenson Direct Testimony, Page 11, Lines 2-7

<sup>6</sup> Sorenson Direct Testimony, Page 11, Lines 16-18.

<sup>7</sup> Christensen Associates Energy Consulting Report, March 22, 2016, Page 16.

1 **Q. DOES THE COSG PROGRAM CONFLICT WITH A COMPETITIVE**  
2 **MARKETPLACE?**

3 A. No. Mr. Sorenson raises a number of dubious concerns.<sup>8</sup> For instance, he states that  
4 “competitive suppliers will not be able to commit to long-term pipeline capacity, storage,  
5 services and other supply options to benefit the customers they serve due to the  
6 unpredictability of these customers resulting from their ability to move between rate classes  
7 annually.”<sup>9</sup> The Company submits that those risks already exist for CNEG today given the  
8 nature of the competitive marketplace. Mr. Sorenson states that the COSG Program “could  
9 negatively impact CNEG’s short- and long-term business strategies and growth  
10 opportunities.”<sup>10</sup> The Company believes that CNEG’s business strategies and growth  
11 opportunities are always at risk given the nature of the competitive marketplace. Mr.  
12 Sorenson further states that, if the Company’s premise is true and the COSG Program  
13 allows the Company to offer customers long-term, stable pricing, “it will be extremely  
14 challenging for competitive retail suppliers to offer products and services that are  
15 competitive against a below-market utility price.”<sup>11</sup> In other words, if the COSG Program  
16 benefits customers, it will be challenging for CNEG to compete. Again, CNEG is off the  
17 mark. If CNEG is concerned that the Company’s provision of long-term supplies at stable  
18 prices will impact CNEG’s business, CNEG has every right to attract or retain customers  
19 by acquiring reserves for itself, producing natural gas, and selling gas to customers at a  
20 more stable cost of production. The Company submits that CNEG is effectively asking the

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<sup>8</sup> Sorenson Direct Testimony, Page 5.

<sup>9</sup> Sorenson Direct Testimony, Page 8, Lines 16-19.

<sup>10</sup> Sorenson Direct Testimony, Page 11, Lines 2-7.

<sup>11</sup> Sorensen Direct Testimony, Page 11, Lines 10-13.



Commission to deny the COSG Program to provide protection to CNEG's business at the expense of customers that stand to benefit from a long-term physical hedge.

**Q. DO THE REQUIREMENTS OF THE COSG PROGRAM RESTRICT CUSTOMERS' FREEDOM TO SELECT THEIR PREFERRED COMMODITY PROVIDER AND RENDER THEM CAPTIVE TO MONOPOLY SERVICE?**

A. No. The COSG Program does not propose to place any new restriction on customers' freedom to select their preferred commodity provider.

**Q. DOES MR. SORENSON EXPRESS CONCERNS ABOUT FUTURE EXPANSION OF THE COSG PROGRAM IN BLACK HILLS' NEWLY ACQUIRED SOURCE GAS UTILITY?<sup>12</sup>**

A. He expresses such concerns, but also appropriately points out that expansion of the COSG Program will require future Commission approval. Pursuant to the terms of the Settlement Agreement dated December 9, 2015, BHUH agreed to continue the SourceGas ChoiceGas Program without any significant operational or structural changes for three years. Further, the Parties agreed that BHUH will hold collaborative meetings with ChoiceGas Suppliers at least twice during the year or as mutually agreed prior to making any significant change to the ChoiceGas Program.<sup>13</sup>

Given this agreement, it is clear that CNEG is simply raising concerns in this docket to try to protect or expand its future business prospects. CNEG already retains ample opportunity to address any significant changes to Black Hills tariffs or the ChoiceGas Program if such changes were to be proposed in the future.

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<sup>12</sup> Sorenson Direct Testimony, Page 7, Lines 15-18.

<sup>13</sup> Settlement Agreement, Application No. NG-0084, December 9, 2015.

1

**III. CONCLUSION**

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**Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

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A. Yes, it does.